

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Hillsdale</b>	County <b>Hillsdale</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/31/05</b>	Date Accountant Report Submitted to State: <b>12/28/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Willis &amp; Jurasek, P.C.</b>			
Street Address <b>2545 Spring Arbor Road</b>	City <b>Jackson</b>	State <b>MI</b>	ZIP <b>49203</b>
Accountant Signature <i>W. Jurasek, P.C.</i>		Date <b>12/28/05</b>	

**City of Hillsdale, Michigan**

Financial Statements  
And Independent Auditors' Report

Year Ended June 30, 2005

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## Independent Auditors' Report

The Honorable Mayor and  
Members of the City Council  
City of Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2005, on our consideration of the City's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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### WILLIS & JURASEK, P.C.

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The Honorable Mayor and  
Members of the City Council

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsdale's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in black ink that reads "Willis & Jurasek, P.C." in a cursive script.

Willis & Jurasek, P.C.

August 31, 2005



**Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and  
Members of the City Council  
City of Hillsdale, Michigan

We have audited the basic financial statements of the City of Hillsdale, Michigan as of and for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City Of Hillsdale's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Hillsdale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the City Council, others within the organization, State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

August 31, 2005

**WILLIS & JURASEK, P.C.**

2545 Spring Arbor Road  
Post Office Box 39  
Jackson, Michigan 49204-0039

## Management's Discussion and Analysis

As management of the *City of Hillsdale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$49,404,522 (*net assets*). Of this amount, \$10,498,944 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,151,779.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,695,644, an increase of \$696,031 in comparison with the prior year. Approximately seventy-six percent (76%) of this total amount, or \$2,071,593, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$592,179, or about seventeen percent (17.8 %) of total general fund expenditures.
- The City's total bonded debt decreased by \$375,000 during the current fiscal year. Overall long-term debt for the City decreased seven percent (7%).

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).



Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public services, parks and recreation, community development, and long-term debt. The business-type activities are electric, sewer, water, and transportation.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also two legally separate authorities – the Tax Increment Finance Authority and the Economic Development Corporation – for which the City is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 1-3 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital improvement funds, each of which are considered to be major funds. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4-7 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electric, sanitary sewer, water distribution, and public transportation operations. *Internal service funds* account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) and accumulate and allocate costs internally among the City's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for three major enterprise funds; electric, water, and sewer, and one non-major fund, Dial-A-Ride.

The basic proprietary fund financial statements can be found on pages 8-11 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 12-13 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-29 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining and individual fund financial statements and schedules, which can be found on pages 30-53 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$49,404,522 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, about seventy-two percent (72%), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's Net Assets	Governmental		Business-type		Total		Total
	Activities		Activities				Percent
	2004	2005	2004	2005	2004	2005	Change
Current and Other Assets	\$2,941,125	\$3,606,439	\$10,275,428	\$11,577,169	\$13,216,553	\$15,183,608	14.88%
Capital Assets	20,134,026	19,398,343	22,856,083	22,391,194	42,990,109	41,789,537	-2.79%
<b>Total Assets</b>	23,075,151	23,004,782	33,131,511	33,968,363	56,206,662	56,973,145	1.36%
Long-term Liabilities Outstanding	1,376,895	1,419,112	4,869,091	4,946,017	6,245,986	6,365,129	80.90%
Other Liabilities	307,187	173,866	1,400,745	1,029,628	1,707,932	1,203,494	30.79%
<b>Total Liabilities</b>	1,684,082	1,592,978	6,269,836	5,975,645	7,953,918	7,568,623	70.14%
Net Assets:							
Invested In Capital Assets Net of Related Debt	18,787,026	18,199,343	17,681,086	17,591,194	36,468,112	35,790,537	-1.86%
Restricted	1,223,858	1,913,726	1,161,558	1,201,315	2,385,416	3,115,041	30.56%
Unrestricted	1,380,185	1,298,735	8,019,031	9,200,209	9,399,216	10,498,944	11.83%
<b>Total Net Assets</b>	<b>\$21,391,069</b>	<b>\$21,411,804</b>	<b>\$26,861,675</b>	<b>\$27,992,718</b>	<b>\$48,252,744</b>	<b>\$49,404,522</b>	2.41%

An additional portion of the City's net assets (\$3,115,041) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$10,498,944, may be used to meet the government's ongoing obligations to citizens and creditors.

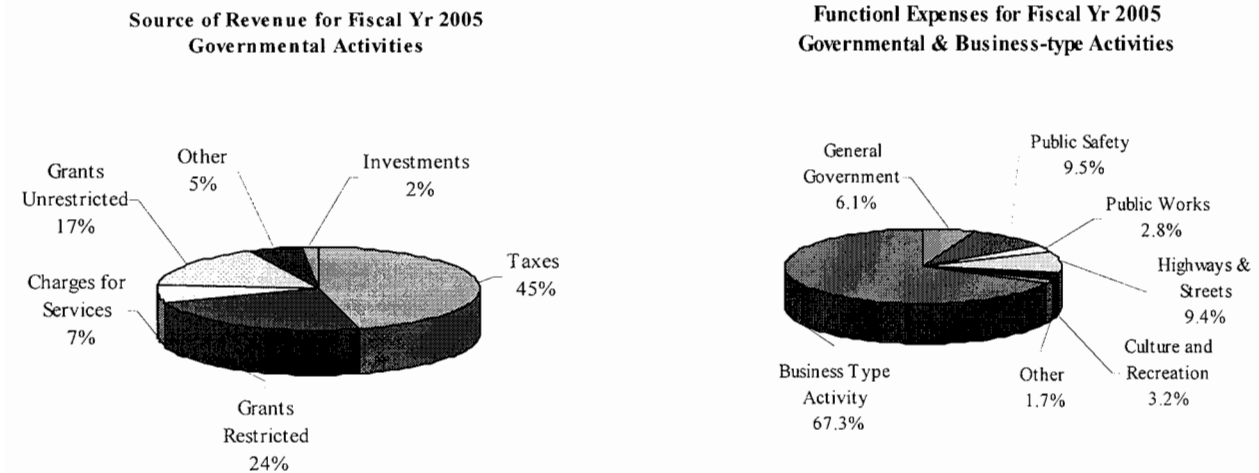
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year the government's net assets increased by \$1,151,779. The increase reflects the degree to which ongoing revenues exceed ongoing expenses in both the business-type and governmental activities. Net assets increased in the governmental activities \$20,736 and \$1,131,043 in the business-type activities.

**City's Changes in Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>		<b>Total Percentage Change</b>
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	
Revenues:							
Program Revenues:							
Charges for Services	\$361,889	\$375,709	\$12,439,289	\$12,169,073	\$12,801,178	\$12,544,782	-2.00%
Operating Grants & Contributions	1,242,098	1,251,298	315,255	205,526	1,557,353	1,456,824	-6.46%
Capital Grants & Contributions	89,522	91,926	0	0	89,522	91,926	2.69%
Total Revenues	1,693,509	1,718,933	12,754,544	12,374,599	14,448,053	14,093,532	-2.45%
Expenses:							
General Government	994,003	1,045,363			994,003	1,045,363	4.75%
Public Safety	1,655,436	1,628,454			1,655,436	\$1,628,454	-1.90%
Public Services	458,930	486,060			458,930	486,060	5.69%
Highways & Streets	1,652,853	1,603,315			1,652,853	1,603,315	-3.10%
Health (Building Inspect/Assessing)	148,811	160,836			148,811	160,836	7.80%
Recreation & Culture	606,080	543,792			606,080	543,792	-10.34%
Interest on Long-term Debt	26,646	23,586			26,646	23,586	-9.19%
Other	0	61,195			0	61,195	61195%
Unallocated Depreciation	36,368	43,019			36,368	43,019	18.29%
Electric			10,214,235	9,092,388	10,214,235	9,092,388	-10.98%
Water			961,151	955,433	961,151	955,433	-0.59%
Sewer			1,019,765	1,062,007	1,019,765	1,062,007	4.14%
Transportation			421,872	447,737	421,872	447,737	-4.50%
Total Expenses	5,579,127	5,595,620	12,617,023	11,557,565	18,196,150	17,153,185	-6.04%
Increase (Decrease) in Net assets Before Transfers	(\$3,885,618)	(\$3,876,687)	137,521	817,034	(3,748,097)	(3,059,653)	-19.87%
General Revenues:							
Taxes	2,417,577	2,569,077			\$2,417,577	2,569,077	6.27%
Grants & Contributions Not Restricted							
To Specific Programs	985,578	943,008			985,578	943,008	-4.32%
Unrestricted Investment Earnings	57,926	88,179	49,284	145,285	107,210	233,464	117.76%
Other Revenues	464,727	465,252	140,129	55,631	604,856	520,883	-21.30%
Prior Year Adjustment CDBG	(280,000)				(280,000)	0	
Contributions to Permanent Funds					0	0	0.00%
Loss on sale of Land	(105,137)				(105,137)	0	
Transfers - Internal Activity	(71,411)	(168,093)	120,785	113,093	49,374	(55,000)	-211.39%
Total General Revenues	3,469,260	3,897,423	310,198	314,009	3,779,548	4,211,432	10.24%
Net Income	(416,358)	20,736	447,719	1,131,043	31,361	1,151,779	3609.57%
Net Assets - Beginning of Year	21,807,427	21,391,068	26,413,956	26,861,675	48,221,383	48,252,743	0.07%
Net Assets - End of Year	\$21,391,069	\$21,411,804	\$26,861,675	\$27,992,718	\$48,252,743	\$49,404,522	2.41%

The City's total revenues (excluding special items) decreased about two percent (2.45%) to \$14,093,532. Approximately forty-five percent (45%) of all governmental activity revenue comes from taxes. Forty-one percent (41%) comes from federal, state, and local grant sources. Only seven percent (7%) of the governmental activities revenues comes from charges for services as opposed to ninety-six (96%) for business-type activities (Board of Public Utilities and Dial-A-Ride).



On the expense side, the largest portion of the expenditures sixty-seven percent (67%) is for the business type activities (BPU and DART). General government amounts to only six percent (6%) of total costs of both business and governmental activities; public safety and streets and highways are both at nine percent (9%) each, and recreation and culture and public works are both at about three percent (3%) each.

**Governmental activities.** Governmental activities had a net income of \$20,736 this year. Key elements of this increase are as follows:

- Property taxes increased \$151,500 (6.3%) during the year. More than fifty-three percent (53%) of that increase is attributed to the collection of industrial facilities tax abatement claw-backs. Two manufacturing firms in town, that had received industrial facilities tax credits, closed their plants in the last year breaching the terms for their tax abatement contracts. The portion of the tax credit they used was billed back to these companies (claw-backs) resulting in this one time windfall of tax revenues.
- State revenue sharing decreased again for the fourth consecutive year.
- Charges for services increased by almost four percent (4%) due to building permits issued to Hillsdale College for new dormitory construction.
- Public Safety expenditures decreased \$26,982 or about two percent (2%) due to staff reductions experienced in the prior year.
- Governmental activities investment earnings were up over fifty-two percent (52%) over the prior year due to improving investment climate and increased interest rates.

**Business-type activities.** Business-type activities increased the City's net assets by \$ 1,131,043, accounting for ninety-seven percent (97%) of the total growth in the government's net assets for the current year. Key elements of this increase are as follows:

- Operating revenues in the Electric fund declined by two and one-half percent (2.5%) at the same time operating expenses declined about eleven percent (11%). The net result is a net income of \$958,358 for the current year, up \$888,083 from last year, largely due to the reduced cost of purchased power and increased interest income.
- The water fund experienced a net income of \$179,185, which amounts to about a two percent (2%) increase from last year. Operating revenues and expenses in this fund were about the same as the prior year, with minor variations. The stabilizing factor in this fund was the one hundred twenty percent (120%) increase in interest revenues.
- The sewer fund net income was down for the second year in a row by about fifty-two percent (52%). The BPU removed an incorrect book value for an inter-departmental loan to the City, for a residential development constructed in 2001, to bring consistency between the BPU and City accounting systems.
- The transportation fund experienced a net loss for the year of \$73,235 because of decreased funding levels from State and Federal sources and increased operational expenses. The good news is that Dial-A-Ride experienced a fifteen percent (15%) increase in ridership over last fiscal year.

### **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,695,644. That is an increase of \$696,031 in comparison with the prior year. Of that number, \$2,071,593 is designated as unreserved. Overall, the total Governmental Fund Revenues increased three percent (3%) or \$181,609 and the total expenditures declined by \$446,993 or eight percent (8%) from last year. The revenue increase is primarily due to an increase in investment earnings, increased permit fees, and increased tax revenues from the industrial facilities tax abatement claw-backs. The decrease in expenditures is the result of the sixty-one percent (61%) reduction in capital outlay expenditures. No major construction projects were done during this fiscal year, but much planning was done to prepare for major street and highway construction projects slated for the summers of 2005 and 2006. The *reserved* fund balance (\$624,050) of the governmental funds is not available for new spending because it has already been committed 1) to generate income for the support and maintenance of R.L. Owen's Park (\$22,825); 2) to generate income to pay for the perpetual care of the two municipal cemeteries (\$546,403); and 3) for a variety of other restricted purposes (\$54,822).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the general fund was \$645,276. All of this balance except for \$53,097 is unreserved and therefore available for spending at the government's discretion.

During the current fiscal year, the fund balance of the City's General Fund increased by \$16,316. This is primarily attributable to the tax windfall from the industrial facilities abatement tax claw-backs and increased interest income.

The *Capital Improvement Fund* ended the year with a fund balance of \$845,254, which was a substantial increase over the prior year. An additional transfer was made from the General Fund at year-end, in preparation for pending 2005 and 2006 street and highway construction projects.

*Other nonmajor governmental funds* collectively experienced an increase in fund balances for the year of \$104,691. Revenues for these funds decreased three percent (3%) and expenditures remained relatively constant, increasing less than three tenths of one percent (.3%). Other financing sources in these funds increased \$45,695 or twenty-two percent (22%) from last year. Approximately seventy-one percent (71%) of these revenues came from General Fund.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the water, sewer, electric, and transportation funds at the end of the year amounted to a total of \$9,200,209. Net income for all City Proprietary funds was \$1,131,043. All the business-type funds showed a net income for the year, except the Dial-A-Ride fund, which had a net loss of \$73,235.

### **General Fund Budgetary Highlights**

Differences between the original and final amended expenditure budgets for General Fund totaled \$130,800. The Treasurer's budget was increased \$35,000 because of the distribution of the industrial facilities tax abatement claw-backs to other taxing jurisdictions. An additional \$7,000 was added to Street Lighting accounts to accommodate increased utility costs. The Building & Grounds budget was increased \$50,000 to pay for unbudgeted repairs to the DPS office building. The Cemetery budget was increased \$15,000 to accommodate labor reallocation of DPS crews from the Street funds. The remaining \$23,800 was added to the Fire Department budget for grant purchases of turnout gear not originally budgeted. Transfers out of General Fund were increased by \$647,500. The Recreation Fund received an additional \$10,000 to cover shortfall of program revenues; the Economic Development Corporation Fund was increased by \$62,500 to accommodate an economic development plan in the industrial park; the RMEF fund budget was increased by \$25,000 for the purchase of an additional patrol car; and the Capital Improvement Fund transfer budget was increased \$550,000 to fund 2006 infrastructure projects.

The City originally budgeted for a balanced budget. However, the general fund revenues were higher than anticipated and all the transfers budgeted for the Local Street and Dial-A-Ride Funds deemed unnecessary. Unfortunately, no budget amendments were made to compensate for these reductions or the additional revenues received, while the amendments were made for the additional appropriations of these funds leaving the amended budget to depict a negative year-end fund balance. However, the General Fund June 30, 2005 fund balance was actually \$645,276, which was an increase of \$16,316 over the prior year.

Budget to actual comparisons for all other City special revenue funds were favorable in varying degrees.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounted to \$41,789,536 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, Library books, recreational land improvements, roads, sidewalks, and storm water utility. The City's total capital assets decreased in the current fiscal year just over three percent (3%) for governmental activities and about two percent (2%) for business-type activities.

Major capital asset events during the current fiscal year included the following:

- A variety of infrastructure projects (street resurfacings, sidewalk construction, and park enhancements) were done throughout the year at a combined cost of approximately \$254,703.
- The utility (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$1,367,979. Those projects included the completion of the Pittsford line upgrade; URD conversions; replacement of Power Plant boiler and air compressor; upgrade wire from Union Street substation; completion of the electric and water meter conversion to audio read meters; water valve replacements; hydrant replacements; water main upgrades; and the purchase of various pieces of equipment.
- Primary Government purchased two police patrol cars, a "Vac-all" Street Sweeper, and an off-road vehicle (used in the parks and recreation departments) for a total cost of \$243,290.
- The Library purchased numerous books at a total cost of \$14,899.

### City's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2004	2005	2004	2005	2004	2005	2005
Land	\$3,271,793	\$3,271,793	\$17,467	\$17,467	\$3,289,260	\$3,289,260	0.00%
Buildings and System Improvements	3,962,485	3,863,215	21,789,626	22,034,466	25,752,111	\$25,897,681	-0.57%
Library Books	46,112	44,451			46,112	\$44,451	3.60%
Machinery and Equipment	791,274	865,268	164,571	106,995	955,845	\$972,263	-1.72%
Infrastructure	12,062,362	11,353,615			12,062,362	\$11,353,615	5.88%
Construction in Progress	0	0	884,419	232,266	884,419	232,266	73.74%
<b>Total</b>	<b>\$20,134,026</b>	<b>\$19,398,342</b>	<b>\$22,856,083</b>	<b>\$22,391,194</b>	<b>\$42,990,109</b>	<b>\$41,789,536</b>	<b>-2.79%</b>

Additional information on the City's capital assets can be found in note No. 5 on pages 23 -24 of this report.



**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,800,000, which consisted of revenue bonds, where the City has pledged the income to be received from the constructed assets to pay the debt service of the related bond issues. The City has no general obligation bonds outstanding.

<p style="text-align: center;"><b>City's Outstanding Debt</b> General Obligation and Revenue Bonds</p>				
	Business-type Activities		Total	
	2004	2005	2004	2005
General Obligation Bonds and Revenue Bonds	\$5,175,000	\$4,800,000	\$5,175,000	\$4,800,000
<b>Total</b>	<b>\$5,175,000</b>	<b>\$4,800,000</b>	<b>\$5,175,000</b>	<b>\$4,800,000</b>

The City's total bonded debt decreased during the current fiscal year by \$375,000 or approximately seven percent (7%). No new debt was issued during the year.

The City of Hillsdale has a revenue bond rating with Standard & Poor's of "BBB" and a "Baa1" rating from Moody's.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$17,346,613, which is significantly in excess of the City's total outstanding long-term debt obligation of \$6,500,532.

Additional information on the City's long-term debt can be found in note No. 8 on pages 26-28 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) is currently 6.4 %, which is a decrease of 0.8 % from one year ago and currently the same as the state's average unemployment rate and 1.3% higher than the national unemployment average of 5.1%.
- Inflationary trends in the region compare favorably to national indices.
- State shared revenues are likely to decrease due to declining revenue streams coming in to the State of Michigan, for which a portion are distributed back to municipalities based on formulas.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 97 N. Broad Street, Hillsdale, Michigan 49242.

**City of Hillsdale, Michigan**  
**Statement of Net Assets**  
June 30, 2005

	Primary Government			Component Units	
			Total	Tax Increment	Economic
	Governmental Activities	Business-type Activities		Finance Authority	Development Corporation
<b>Assets:</b>					
Cash and investments	\$ 2,595,038	\$ 5,664,188	\$ 8,259,226	\$ 116,291	\$ 99,190
Receivables	715,684	1,232,592	1,948,276	-	-
Internal balances	65,219	(65,219)	-	-	-
Prepaid items and other assets	106,066	131,964	238,030	-	-
Inventory	124,432	731,631	856,063	-	-
Investment in M.S.C.P.A.	-	3,882,013	3,882,013	-	-
Capital assets, net					
Assets not being depreciated	3,271,793	249,733	3,521,526	-	-
Assets being depreciated	16,126,550	22,141,461	38,268,011	-	-
Total assets	<u>23,004,782</u>	<u>33,968,363</u>	<u>56,973,145</u>	<u>116,291</u>	<u>99,190</u>
<b>Liabilities:</b>					
Accounts payable	116,909	53,595	170,504	-	-
Accrued expenses	53,413	931,641	985,054	-	-
Accrued interest	3,544	44,392	47,936	-	-
Noncurrent liabilities:					
Due within one year	180,000	464,000	644,000	-	-
Due in more than one year	<u>1,239,112</u>	<u>4,482,017</u>	<u>5,721,129</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,592,978</u>	<u>5,975,645</u>	<u>7,568,623</u>	<u>-</u>	<u>-</u>
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	18,199,343	17,591,194	35,790,537	-	-
Restricted for:					
Debt service	2,182	1,201,315	1,203,497	-	-
Capital projects	1,342,315	-	1,342,315	-	-
Endowment and trust principal	569,229	-	569,229	-	-
Unrestricted	<u>1,298,735</u>	<u>9,200,209</u>	<u>10,498,944</u>	<u>116,291</u>	<u>99,190</u>
Total net assets	<u>\$ 21,411,804</u>	<u>\$ 27,992,718</u>	<u>\$ 49,404,522</u>	<u>\$ 116,291</u>	<u>\$ 99,190</u>

See Notes to Financial Statements.

**City of Hillsdale, Michigan**  
Statement of Activities  
Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 1,045,363	\$ 153,943	\$ 444,441	\$ 91,926	\$ (355,053)
Public safety	1,628,454	-	15,507	-	(1,612,947)
Public works	486,060	102,163	-	-	(383,897)
Highways and streets	1,603,315	-	665,451	-	(937,864)
Health	160,836	-	-	-	(160,836)
Culture and recreation	543,792	119,603	125,899	-	(298,290)
Interest on long-term debt	23,586	-	-	-	(23,586)
Other	61,195	-	-	-	(61,195)
Unallocated depreciation	<u>43,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(43,019)</u>
Total governmental activities	<u>5,595,620</u>	<u>375,709</u>	<u>1,251,298</u>	<u>91,926</u>	<u>(3,876,687)</u>
Business-type activities:					
Electric	9,092,388	9,886,568	-	-	794,180
Sewer	1,062,007	1,123,703	-	-	61,696
Water	955,433	1,102,919	-	-	147,486
Transportation	<u>447,737</u>	<u>55,883</u>	<u>205,526</u>	<u>-</u>	<u>(186,328)</u>
Total business-type activities	<u>11,557,565</u>	<u>12,169,073</u>	<u>205,526</u>	<u>-</u>	<u>817,034</u>
Total primary government	<u>\$ 17,153,185</u>	<u>\$ 12,544,782</u>	<u>\$ 1,456,824</u>	<u>\$ 91,926</u>	<u>\$ (3,059,653)</u>
<b>Component units</b>					
Tax Increment Finance Authority	\$ -	\$ -	\$ -	\$ -	\$ -
Economic Development	<u>200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200)</u>
Total component units	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (200)</u>

continued..

**City of Hillsdale, Michigan**  
Statement of Activities (Continued)  
Year Ended June 30, 2005

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance Authority	Development Corporation
<b>Changes in Net Assets</b>					
Net (expense) revenue	\$ (3,876,687)	\$ 817,034	\$ (3,059,653)	\$ -	\$ (200)
General revenues:					
Property taxes	2,569,077	-	2,569,077	92,268	-
Unrestricted grants and contributions	943,008	-	943,008	-	-
Interest and investment earnings	88,179	145,285	233,464	1,125	720
Other revenues	465,252	55,631	520,883	-	-
Transfers - internal activities	(168,093)	113,093	(55,000)	(7,500)	62,500
Total general revenues, contributions and transfers	<u>3,897,423</u>	<u>314,009</u>	<u>4,211,432</u>	<u>85,893</u>	<u>63,220</u>
<b>Changes in Net Assets</b>	20,736	1,131,043	1,151,779	85,893	63,020
<b>Net Assets - Beginning of Year</b>	<u>21,391,068</u>	<u>26,861,675</u>	<u>48,252,743</u>	<u>30,398</u>	<u>36,170</u>
<b>Net Assets - End of Year</b>	<u>\$ 21,411,804</u>	<u>\$ 27,992,718</u>	<u>\$ 49,404,522</u>	<u>\$ 116,291</u>	<u>\$ 99,190</u>

See Notes to Financial Statements.

**City of Hillsdale, Michigan**

Balance Sheet  
Governmental Funds  
June 30, 2005

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash	\$ 426,413	\$ 845,439	\$ 575,853	\$ 1,847,705
Short-term investments	-	-	505,415	505,415
Receivables:				
Taxes receivable	12,517	-	-	12,517
Accounts receivable	33,771	-	56,707	90,478
Special assessments	-	359,875	-	359,875
Due from other governmental units	129,911	-	122,859	252,770
Due from other funds	70,717	-	-	70,717
Prepaid expenditures	<u>72,604</u>	<u>-</u>	<u>1,725</u>	<u>74,329</u>
 Total assets	 <u>\$ 745,933</u>	 <u>\$ 1,205,314</u>	 <u>\$ 1,262,559</u>	 <u>\$ 3,213,806</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts payable	\$ 55,336	\$ -	\$ 44,699	\$ 100,035
Due to other funds	-	-	5,498	5,498
Salaries payable	29,192	185	7,248	36,625
Deferred revenue	-	359,875	-	359,875
Other liabilities	<u>16,129</u>	<u>-</u>	<u>-</u>	<u>16,129</u>
Total liabilities	<u>100,657</u>	<u>360,060</u>	<u>57,445</u>	<u>518,162</u>
 Fund Balances:				
Reserved:				
Reserved for prepaid expenditures	53,097	-	1,725	54,822
Reserved for perpetual care and endowment	-	-	569,229	569,229
Unreserved; undesignated	592,179	845,254	-	1,437,433
Unreserved; undesignated- reported in nonmajor:				
Special revenue funds	-	-	491,248	491,248
Debt service funds	-	-	5,726	5,726
Capital project funds	<u>-</u>	<u>-</u>	<u>137,186</u>	<u>137,186</u>
Total fund balances	<u>645,276</u>	<u>845,254</u>	<u>1,205,114</u>	<u>2,695,644</u>
 Total liabilities and fund balances	 <u>\$ 745,933</u>	 <u>\$ 1,205,314</u>	 <u>\$ 1,262,559</u>	 <u>\$ 3,213,806</u>

See Notes to Financial Statements.

**City of Hillsdale, Michigan**

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets  
of Governmental Activities on the Statement of Net Assets  
June 30, 2005

**Total Fund Balances - Governmental Funds** \$ 2,695,644

Amounts reported for governmental activities in the Statement  
of Net Assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds.

The cost of the capital assets is

\$ 36,629,335

Accumulated depreciation is

(17,629,998)

18,999,337

Because the focus of governmental funds is on short-term financing,  
some assets will not be available to pay for current-period expenditures.  
Those assets (such as certain receivables) are offset by deferred revenues  
in the governmental funds, and these are not included in fund balance.

Deferred special assessments

359,875

Internal service funds are used by management to charge the costs of certain  
equipment usage and administrative costs to individual governmental funds.  
The assets and liabilities of the internal service funds are included in governmental  
activities in the Statement of Net Assets.

Net assets of governmental activities accounted for in the internal service fund

736,724

Long-term liabilities not due and payable in the current period  
and not reported in the funds:

Contracts and loans payable

(1,199,000)

Accrued interest

(3,544)

Compensated absences

(177,232)

**Total Net Assets - Governmental Activities**

**\$ 21,411,804**

**City of Hillsdale, Michigan**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2005

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues:</b>				
Taxes	\$ 2,406,486	\$ -	\$ 148,409	\$ 2,554,895
Intergovernmental - federal and State	969,586	-	677,988	1,647,574
Charges for services	-	-	97,282	97,282
Fines and violations	-	-	51,853	51,853
Miscellaneous	<u>1,216,759</u>	<u>13,750</u>	<u>179,563</u>	<u>1,410,072</u>
Total revenues	<u>4,592,831</u>	<u>13,750</u>	<u>1,155,095</u>	<u>5,761,676</u>
<b>Expenditures:</b>				
General government	1,041,249	-	-	1,041,249
Public safety	1,568,468	-	11,754	1,580,222
Public works	441,418	-	-	441,418
Highways and streets	-	-	697,104	697,104
Health	160,411	-	-	160,411
Culture and recreation	106,066	-	343,086	449,152
Debt service:				
Principal payments	-	-	148,000	148,000
Interest and fiscal charges	-	-	24,197	24,197
Capital outlay	<u>-</u>	<u>251,226</u>	<u>79,573</u>	<u>330,799</u>
Total expenditures	<u>3,317,612</u>	<u>251,226</u>	<u>1,303,714</u>	<u>4,872,552</u>
<b>Revenues Over (Under) Expenditures</b>	<u>1,275,219</u>	<u>(237,476)</u>	<u>(148,619)</u>	<u>889,124</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	22,000	812,500	441,210	1,275,710
Operating transfers out	<u>(1,280,903)</u>	<u>-</u>	<u>(187,900)</u>	<u>(1,468,803)</u>
Total other financing sources (uses)	<u>(1,258,903)</u>	<u>812,500</u>	<u>253,310</u>	<u>(193,093)</u>
<b>Net Changes in Fund Balances</b>	16,316	575,024	104,691	696,031
<b>Fund Balances - Beginning of Year</b>	<u>628,960</u>	<u>270,230</u>	<u>1,100,423</u>	<u>1,999,613</u>
<b>Fund Balances - End of Year</b>	<u>\$ 645,276</u>	<u>\$ 845,254</u>	<u>\$ 1,205,114</u>	<u>\$ 2,695,644</u>

See Notes to Financial Statements.



**City of Hillsdale, Michigan**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2005

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>696,031</b>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	\$ (1,129,094)	
Capital outlay	<u>269,604</u>	(859,490)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.		
Current year deferred special assessments		14,182
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.		
Repayment to bond holders		148,000
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.		
Net operating income from governmental activities in the internal service fund		33,591
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Decrease in accrued interest payable on bonds		611
Increase in the accrual for compensated absences		<u>(12,189)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>20,736</u></b>

# City of Hillsdale, Michigan

## Statement of Net Assets

### Proprietary Funds

Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 1,606,645	\$ -	\$ 188,868	\$ 77,416	\$ 1,872,929	\$ 241,918
Receivables:						
Accounts (net of allowance for bad debt of \$120,000)	1,058,723	75,920	78,919	-	1,213,562	44
Accrued interest	11,683	3,001	4,346	-	19,030	-
Due from other funds	5,498	-	976,356	-	981,854	-
Inventory, at cost	642,136	85,051	4,444	-	731,631	124,432
Prepaid expenses	79,607	17,627	30,603	4,127	131,964	31,737
Total current assets	3,404,292	181,599	1,283,536	81,543	4,950,970	398,131
Noncurrent Assets:						
Restricted investments	-	231,379	275,127	-	506,506	-
Designated investments	2,083,438	619,884	581,431	-	3,284,753	-
Total restricted and designated assets	2,083,438	851,263	856,558	-	3,791,259	-
Capital Assets:						
Land	17,467	-	-	-	17,467	-
Plant and equipment	28,080,546	9,756,968	13,224,790	416,261	51,478,565	1,488,367
Construction in progress	117,573	114,693	-	-	232,266	-
	28,215,586	9,871,661	13,224,790	416,261	51,728,298	1,488,367
Less accumulated depreciation	(16,337,476)	(3,947,781)	(8,742,581)	(309,266)	(29,337,104)	(1,089,362)
Net capital assets	11,878,110	5,923,880	4,482,209	106,995	22,391,194	399,005
Other assets - investment in M.S.C.P.A.	3,882,013	-	-	-	3,882,013	-
Total assets	21,247,853	6,956,742	6,622,303	188,538	35,015,436	797,136
<b>Liabilities:</b>						
Current liabilities (payable from current assets):						
Accounts payable	33,659	9,658	7,954	2,324	53,595	16,873
Accrued purchased power	887,342	-	-	-	887,342	-
Accrued expenses	21,615	-	-	2,641	24,256	659
Customer deposits	11,341	989	-	-	12,330	-
Due to other funds	22,890	979,072	2,831	42,280	1,047,073	-
Due to other governments	-	-	-	7,713	7,713	-
Total current liabilities (payable from current assets)	976,847	989,719	10,785	54,958	2,032,309	17,532
Current liabilities (payable from restricted assets):						
Bonds payable	-	245,000	140,000	-	385,000	-
Accrued interest	-	37,592	6,800	-	44,392	-
Total current liabilities (payable from restricted assets)	-	282,592	146,800	-	429,392	-
Noncurrent liabilities:						
Accrued compensated absences	77,298	29,593	33,032	6,094	146,017	42,880
General obligation and revenue bonds payable	-	3,335,000	1,080,000	-	4,415,000	-
Total noncurrent liabilities	77,298	3,364,593	1,113,032	6,094	4,561,017	42,880
Total liabilities	1,054,145	4,636,904	1,270,617	61,052	7,022,718	60,412
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	11,878,110	2,343,880	3,262,209	106,995	17,591,194	399,005
Restricted investments	-	619,884	581,431	-	1,201,315	-
Unrestricted (deficit)	8,315,598	(643,926)	1,508,046	20,491	9,200,209	337,719
Total net assets	\$ 20,193,708	\$ 2,319,838	\$ 5,351,686	\$ 127,486	\$ 27,992,718	\$ 736,724

See Notes to Financial Statements.

**City of Hillsdale, Michigan**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**Year Ended June, 2005**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities</b>
				<b>Nonmajor Fund</b>		<b>Internal Service Funds</b>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Dial-A-Ride</b>	<b>Totals</b>	
<b>Operating Revenues:</b>						
Charges for services	\$ 9,886,568	\$ 1,102,919	\$ 1,123,703	\$ 49,978	\$ 12,163,168	\$ 423,722
Other	36,450	6,664	28,397	5,905	77,416	189,852
Total operating revenues	<u>9,923,018</u>	<u>1,109,583</u>	<u>1,152,100</u>	<u>55,883</u>	<u>12,240,584</u>	<u>613,574</u>
<b>Operating Expenses:</b>						
Purchased power	6,329,230	-	-	-	6,329,230	-
Production expense	940,208	44,536	-	-	984,744	-
Purification expense	-	206,046	-	-	206,046	-
Treatment expense	-	-	612,074	-	612,074	-
Transmission and distribution	979,198	314,451	-	-	1,293,649	-
Administrative	843,752	236,543	250,552	-	1,330,847	611,316
Sewer collection	-	-	172,182	-	172,182	-
Transportation	-	-	-	402,904	402,904	-
Total operating expenses	<u>9,092,388</u>	<u>801,576</u>	<u>1,034,808</u>	<u>402,904</u>	<u>11,331,676</u>	<u>611,316</u>
<b>Operating Income (Loss)</b>	<u>830,630</u>	<u>308,007</u>	<u>117,292</u>	<u>(347,021)</u>	<u>908,908</u>	<u>2,258</u>
<b>Nonoperating Revenues (Expenses):</b>						
Interest income	76,921	21,802	46,562	-	145,285	6,333
Interest expense	-	(153,857)	(27,199)	-	(181,056)	-
Other income (expense)	50,807	3,233	(69,920)	205,526	189,646	-
Total nonoperating revenues (expenses)	<u>127,728</u>	<u>(128,822)</u>	<u>(50,557)</u>	<u>205,526</u>	<u>153,875</u>	<u>6,333</u>
<b>Net Income (Loss) Before Transfers</b>	<u>958,358</u>	<u>179,185</u>	<u>66,735</u>	<u>(141,495)</u>	<u>1,062,783</u>	<u>8,591</u>
<b>Transfers in from Other Funds</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,260</u>	<u>68,260</u>	<u>25,000</u>
<b>Net Income (Loss)</b>	<u>958,358</u>	<u>179,185</u>	<u>66,735</u>	<u>(73,235)</u>	<u>1,131,043</u>	<u>33,591</u>
<b>Net Assets - Beginning of Year</b>	<u>19,235,350</u>	<u>2,140,653</u>	<u>5,284,951</u>	<u>200,721</u>	<u>26,861,675</u>	<u>703,133</u>
<b>Net Assets - End of Year</b>	<u>\$ 20,193,708</u>	<u>\$ 2,319,838</u>	<u>\$ 5,351,686</u>	<u>\$ 127,486</u>	<u>\$ 27,992,718</u>	<u>\$ 736,724</u>

**City of Hillsdale, Michigan**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2005**

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	
<b>Cash Flows From Operating Activities:</b>						
Cash received from customers, residents and users	\$ 9,898,300	\$ 1,096,653	\$ 1,128,890	\$ 55,883	\$12,179,726	\$ -
Other operating receipts	36,450	6,664	28,397	-	71,511	-
Receipts for interfund services provided	-	-	-	-	-	620,225
Cash paid to employees and suppliers	(9,088,724)	(643,989)	(712,895)	(350,023)	(10,795,631)	(520,809)
Net cash provided by (used in) operating activities	<u>846,026</u>	<u>459,328</u>	<u>444,392</u>	<u>(294,140)</u>	<u>1,455,606</u>	<u>99,416</u>
<b>Cash Flows From Noncapital Financing Activities:</b>						
Intergovernmental nonoperating revenues	-	-	-	205,526	205,526	-
Transfers from other funds	-	-	-	68,260	68,260	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,786</u>	<u>273,786</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>						
Bond payments on capital debt	-	(235,000)	(140,000)	-	(375,000)	-
Interest on capital debt	-	(153,857)	(27,199)	-	(181,056)	-
Purchase of capital assets, net	(399,171)	(68,903)	(226,182)	-	(694,256)	(218,289)
Net cash used by capital and related financing activities	<u>(399,171)</u>	<u>(457,760)</u>	<u>(393,381)</u>	<u>-</u>	<u>(1,250,312)</u>	<u>(218,289)</u>
<b>Cash Flows From Investing Activities:</b>						
Proceeds from sale of investments	-	-	-	-	-	-
Purchase of investments	(58,899)	(26,477)	(29,899)	-	(115,275)	-
Other nonoperating income received	50,807	3,233	(69,920)	-	(15,880)	-
Interest income received	74,996	21,676	47,315	-	143,987	-
Net cash provided by investing activities	<u>66,904</u>	<u>(1,568)</u>	<u>(52,504)</u>	<u>-</u>	<u>12,832</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>513,759</b>	<b>-</b>	<b>(1,493)</b>	<b>(20,354)</b>	<b>491,912</b>	<b>(118,873)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>1,092,886</b>	<b>-</b>	<b>190,361</b>	<b>97,770</b>	<b>1,381,017</b>	<b>360,791</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b><u>\$ 1,606,645</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 188,868</u></b>	<b><u>\$ 77,416</u></b>	<b><u>\$ 1,872,929</u></b>	<b><u>\$ 241,918</u></b>

Continued..

See Notes to Financial Statements.

**City of Hillsdale, Michigan**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**Year Ended June 30, 2005**

	<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities - Internal Service Funds</b>
	<b>Electric</b>	<b>Water</b>	<b>Sewer</b>	<b>Nonmajor Fund Dial-A-Ride</b>	<b>Total</b>	
<b>Balance Sheet Classification of Cash</b>						
Current assets - cash and cash equivalents	\$ 1,606,645	\$ -	\$ 188,868	\$ 77,416	1,872,929	\$ 241,918
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>						
Operating income (loss)	\$ 830,630	\$ 308,007	\$ 117,292	\$ (347,021)	908,908	\$ 8,591
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	643,736	199,401	258,431	57,576	1,159,144	119,482
Changes in:						
Accounts receivable	(60,051)	(6,140)	5,187	-	(61,004)	318
Due from other funds	16,805	-	105,831	-	122,636	-
Inventory	(2,787)	8,052	1,180	-	6,445	(23,114)
Prepaid expenses	(4,925)	(1,435)	(3,890)	27	(10,223)	(4,827)
Investment in M.S.C.P.A.	(677,654)	-	-	-	(677,654)	-
Accounts payable	156,847	(842)	(17,411)	(4,945)	133,649	(1,537)
Accrued expenses	(50,911)	(4,284)	1,106	223	(53,866)	-
Customer deposits	1,117	(91)	-	-	1,026	-
Due to other funds	(6,781)	(43,340)	(23,334)	-	(73,455)	503
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 846,026</b>	<b>\$ 459,328</b>	<b>\$ 444,392</b>	<b>\$ (294,140)</b>	<b>\$ 1,455,606</b>	<b>\$ 99,416</b>

See Notes to Financial Statements.

**City of Hillsdale, Michigan**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2005

	<u>Hospital Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 14,955	\$ 17,871
<b>Liabilities:</b>		
Due to other agencies	-	\$ 17,871
<b>Net Assets:</b>		
Unrestricted	14,955	
Total net assets	<u>\$ 14,955</u>	

**City of Hillsdale, Michigan**  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
Year Ended June 30, 2005

	<u>Hospital Private Purpose Trust Fund</u>
<b>Revenue:</b>	
Interest income	\$          464
<b>Expenses:</b>	
Other	<u>          577</u>
<b>Change in Net Assets</b>	(113)
<b>Net Assets - Beginning of Year</b>	<u>         15,068</u>
<b>Net Assets - End of Year</b>	<u><u>         \$     14,955</u></u>

See Notes to Financial Statements.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 1 - Summary of Significant Accounting Policies**

The City of Hillsdale, Michigan was organized in 1847 and covers an area of approximately 5.5 square miles in Hillsdale County. In 1957, the City adopted the Home Rule Charter. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter to its more than 8,233 residents (2000 census): public safety (police and fire), highways and streets, sanitation, health, housing, recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Hillsdale have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity**

The City of Hillsdale (the "City") has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 34. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because the City is considered to be financially accountable for them.

In conformity with generally accepted accounting principles, the financial statements of the component units are included in the reporting entity as discretely presented component units.

**Discretely Presented Component Units** – The component unit columns in the combined financial statements include the financial data of the City's two component units. These units are reported in separate columns to emphasize that they are legally separate from the City:

**Tax Increment Finance Authority** – Operated as a separate Board, this Authority is responsible for directing improvements to a District in the City of Hillsdale using funds derived from the capturing of real and personal property taxes within that District. The City has the ability to significantly influence operations and has accountability for fiscal matters.

**Economic Development Corporation** – This entity is governed by a separate Board appointed by the City Council to grant loans to businesses operating in the City.

**Brownfield Redevelopment Authority** - This entity was established in order to revitalize environmentally distressed areas within a Brownfield Redevelopment Area and is operated by a separate Board. To date, the Authority has had no activity.

The financial statements of the Hillsdale Housing Commission are excluded from the accompanying financial statements since the Housing Commission's operating and capital expenditures, including debt service, are financed entirely from federal grants and rentals. The City has no involvement in the determination of the Housing Commission's budget and rental rates, and has no obligation for the Housing Commission's outstanding debt. Summarized financial statements as of and for the year ended June 30, 2004, the date of their most recently prepared audited financial statements, are as follows:

Revenue	\$301,489	Assets	\$1,414,717
Expenses	457,572	Liabilities	37,677
Excess expenses over revenues	(156,083)	Fund equity	1,377,040
Other income (net)	2,123		
Net loss	(153,960)		



**City of Hillsdale, Michigan**  
**Notes to Financial Statements**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-Wide Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund-Based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**General Fund** – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Improvement Fund** – This fund is used to account for the financial resources to be used for the construction of major capital facilities projects (other than those financed by proprietary and trust funds).

The government reports the following major proprietary funds:

**Electric Fund** – The electric fund accounts for the activities of the government's electric generation and distribution system.

**Water Fund** – The water fund accounts for the activities of the government's water production, purification, and distribution systems.

**Sewer Fund** – The sewer fund accounts for the activities of the government's sewage collection and treatment systems.

Additionally, the government reports the following fund types:

**Special Revenue Funds** – These funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

**Debt Service Fund** – The debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on long-term general obligation debt of governmental funds not being financed by proprietary funds.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Capital Project Funds** – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

**Internal Service Funds** – The internal service funds account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) to other departments of the City on a cost-reimbursement basis.

**R.L. Owen Memorial Fund** – This permanent fund accounts for monies held in trust to be used for the activities specified in the related trust agreement.

**Cemetery Perpetual Fund** – This permanent fund accounts for monies held in trust to be used for the perpetual care of cemetery lots.

**Dial-A-Ride Fund** – This fund accounts for the operations of the local transportation system in the City of Hillsdale.

**Hospital Private Purpose Trust Fund** – This fund accounts for contributions earmarked for hospital care.

**Agency Funds** – These funds account for assets held for other governments in an agency capacity.

**Additional Financial Statement Presentation Information** - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewer enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deposits and Investments** – The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Investments are reported at fair value.

**Receivables and Payables** – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventory** – Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory of the Hillsdale Board of Public Utilities (reported as business-type activities, major proprietary funds) are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when purchased.

**Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** – Certain proceeds of the Enterprise Funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

**City of Hillsdale, Michigan**  
**Notes to Financial Statements**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	50
Vehicles	5 - 12
Books	7
Equipment	5 - 20
Infrastructure	15 - 50
Plant and systems	10 - 65

**Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation, sick and personal days are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the obligation is expected to be liquidated from expendable available financial resources.

**Long-Term Obligations** – In the government-wide financial statements (Statement of Net Assets) and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Property Taxes** - The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for 2004 had a taxable value of approximately \$146,000,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2004-05 was 14.9205 mills, with an additional .9947 mills levied for operations of the Mitchell Public Library.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Hillsdale, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

**Note 2 - Stewardship, Compliance and Accountability**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted prior to July 1.

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The adopted budgets of the City for these budgetary funds were adopted on a functional basis for the General Fund and a fund basis for the Special Revenue Funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**Excess of Expenditures Over Appropriations**

For the year ended June 30, 2005, there were no expenditures that exceeded appropriations in the General Fund.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 3 – Cash and Investments**

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Statement of Net Assets:		
Cash and investments	\$8,259,226	\$ 215,481
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and cash equivalents	14,955	-
Agency Funds:		
Cash and cash equivalents	<u>17,871</u>	<u>-</u>
	<u>\$8,292,052</u>	<u>\$ 215,481</u>
	<u>Primary Government</u>	<u>Component Unit(s)</u>
Bank deposits (checking accounts, savings accounts and short-term CDs)	\$2,608,184	\$ 62,500
Investments in securities, mutual funds and similar vehicles	5,681,518	152,981
Cash on hand	<u>2,350</u>	<u>-</u>
	<u>\$8,292,052</u>	<u>\$ 215,481</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1. The City's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided in the following table that shows the distribution of the City's investments by maturity.

Rating S&P	Rating Moody's	Investment Type	Remaining Maturity		
			12 Months or Less	1 to 5 Years	Greater Than 5 Years
N/A	N/A	Certificates of Deposit	\$ 500,000	\$ 214,152	\$ 0
NR	NR	Local Units of Government Investments Pool	5,078	0	0
NR	NR	Michigan CLASS Investments Pool	944,330	0	0
AAA	Aaa	U.S. Government Agency Bonds	0	3,323,908	417,153
AAA	Aaa	Financing Corporation Bond	0	0	31,200
N/A	N/A	Money Market Fund	1,081	0	0
N/A	N/A	Spartan U.S. Government Money Market	311,341	0	0
N/A	N/A	Fidelity Investment Cash	86,256	0	0

**City of Hillsdale, Michigan**  
**Notes to Financial Statements**

**Note 3 – Cash and Investments (Continued)**

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented above is the actual rating as of year-end for each investment type.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the local unit. The City has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$3,169,895 of the City's bank balance of \$3,859,313 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of year-end, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities - Federal agency securities in the reported amount of \$3,741,061.

**Note 4 – Receivables**

Receivables of the governmental activities of the primary government at June 30, 2005, consist of the following:

Other governmental units (primarily the State of Michigan)	\$252,770
Accounts receivable	90,522
Taxes receivable	12,517
Special assessments	<u>359,875</u>
	<u>\$715,684</u>



**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 5 - Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Ending Balance</b>
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$3,271,793	\$ -	\$ -	\$3,271,793
Capital assets being depreciated:				
Land improvements	195,035	15,000	-	210,035
Buildings and improvements	4,700,277	6,400	-	4,706,677
Books	439,722	14,900	-	454,622
Equipment and vehicles	2,321,684	243,290	150,051	2,414,923
Infrastructure	27,199,141	233,303	372,791	27,059,653
Total capital assets being depreciated	34,855,859	512,893	522,842	34,845,910
Accumulated depreciation:				
Land improvements	81,223	23,102	-	104,325
Buildings and improvements	851,604	97,568	-	949,172
Books	393,610	16,560	-	410,170
Equipment and vehicles	1,530,410	169,296	150,051	1,549,655
Infrastructure	15,136,779	942,050	372,791	15,706,038
Total accumulated depreciation	17,993,626	1,248,576	522,842	18,719,360
Total capital assets being depreciated - net	16,862,233	(735,684)	-	16,126,550
Governmental activities capital assets - net	\$20,134,026	\$ (735,683)	\$ -	\$19,398,343
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 17,467	\$ -	\$ -	\$ 17,467
Construction in progress	884,419	-	652,153	232,266
Total capital assets not being depreciated	901,886	-	652,153	249,733
Capital assets being depreciated:				
Equipment	416,261	-	-	416,261
Plant and systems	49,893,352	1,367,981	199,030	51,062,303
Total capital assets being depreciated	50,309,613	1,367,981	199,030	51,478,564
Accumulated depreciation:				
Equipment	251,690	57,576	-	309,266
Plant and systems	28,103,726	1,101,567	177,456	29,027,837
Total accumulated depreciation	28,355,416	1,159,143	177,456	29,337,103
Total capital assets being depreciated - net	21,954,197	208,838	21,574	22,141,461
Business-type activities capital assets - net	\$22,856,083	\$ 208,838	\$ 673,727	\$22,391,194

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 5 - Capital Assets (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public safety	\$ 43,707
Highways and streets	904,486
Culture and recreation	94,265
Public works	43,617
Unallocated	43,019
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>119,482</u>
Total depreciation expense – governmental activities	<u>\$ 1,248,576</u>
Business-Type Activities:	
Electric	\$ 643,736
Water	199,401
Sewer	258,431
Transportation	<u>57,576</u>
Total depreciation expense – business-type activities	<u>\$ 1,159,144</u>

**Note 6 - Interfund Receivables, Payables and Transfers**

The City reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Receivable</u>	<u>Payable</u>
<b>Due from/to other funds:</b>		
General Fund	\$ 70,717	\$ -
Capital Improvement	-	-
Nonmajor Governmental Funds	-	5,498
Water Fund	-	979,072
Sewer Fund	976,356	2,831
Electric Fund	5,498	22,890
Nonmajor Enterprise Fund	-	42,280
	<u>\$1,052,571</u>	<u>\$ 1,052,571</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Transfers:</b>		
General Fund	\$ 22,000	\$ 1,280,903
Capital Improvement	812,500	-
Internal Service	25,000	-
Nonmajor Governmental Funds	441,210	187,900
Component Units	62,500	7,500
Nonmajor Enterprise Fund	113,093	-
	<u>\$1,476,303</u>	<u>\$ 1,476,303</u>

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 6 - Interfund Receivables, Payables and Transfers (Continued)**

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 7 - Investment in Michigan South Central Power Agency**

The Michigan South Central Power Agency (M.S.C.P.A.) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<b><u>Percent of Ownership</u></b>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	<u>4.0</u>
	<u>100.0%</u>

The City of Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2005, audited by other auditors whose report dated August 12, 2005, expressed an unqualified opinion for those statements.

The Board has entered into a Power Sales Contract with M.S.C.P.A. which requires the Board to purchase all of its bulk power supply from M.S.C.P.A. and to pay its share of the agency's operating and debt service costs. The Board has also entered into an agreement for services to be provided by the M.S.C.P.A. in respect to substation facilities and an agreement which requires the Board to sell to the agency power generated by its facilities in certain instances.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 7 - Investment in Michigan South Central Power Agency (Continued)**

Summary information of the Hillsdale Board of Public Utilities investment in the M.S.C.P.A. as of and for the year ended June 30, 2005, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Hillsdale Board of Public Utilities Portion 25.5%</u>
Total assets	\$81,830,162	\$20,866,691
Total liabilities	<u>66,606,581</u>	<u>16,984,678</u>
<b>Net Assets</b>	<u>\$15,223,581</u>	<u>\$ 3,882,013</u>
Operating revenues	\$38,634,773	\$ 9,851,867
Operating expenses	<u>30,968,241</u>	<u>7,896,901</u>
<b>Operating Income</b>	7,666,532	1,954,966
Other income and expenses	<u>(5,009,063)</u>	<u>(1,277,312)</u>
<b>Changes in Net Assets</b>	2,657,469	677,654
<b>Net Assets, Beginning of Year</b>	<u>12,566,112</u>	<u>3,204,359</u>
<b>Net Assets, End of Year</b>	<u>\$15,223,581</u>	<u>\$ 3,882,013</u>

**Note 8 - Long-Term Debt**

**General Obligation Bonds** - The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. No general obligation bonds were issued during the current year.

**Other Obligations** - The government has entered into various long-term loan and installment contract agreements.

Loan and installment obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Governmental Activities:</b>			
Other government debt:			
Loan – Strategic Loan Fund –			
Road improvements	2013	0.00%	\$ 450,000
Municipal purchase contract -			
Library building improvements	2013	4.19%	525,000
Loan – Community			
Development Block Grant –			
Industrial park property acquisitions	2013	0.00%	<u>224,000</u>
			<u>\$1,199,000</u>

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 8 - Long-Term Debt (Continued)**

Annual debt service requirements to maturity for the loan and municipal service contract obligations are as follows:

<u>Year Ending June 30,</u>	<u>Other Governmental Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 148,000	21,265
2007	148,000	18,331
2008	148,000	15,398
2009	148,000	12,465
2010	148,000	9,532
2011 – 2014	<u>459,000</u>	<u>10,999</u>
<b>Total</b>	<b><u>\$1,199,000</u></b>	<b><u>\$ 87,990</u></b>

**Revenue Bonds** - The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Business-Type Activities</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
1999 Water	2019	4.75% - 5.10%	\$1,960,000
2002 Water Refunding	2015	3.00% - 4.00%	1,620,000
1992 Sewer	2013	2%	<u>1,220,000</u>
			<b><u>\$4,800,000</u></b>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 385,000	\$ 170,896
2007	395,000	158,789
2008	410,000	146,314
2009	420,000	133,396
2010	430,000	120,010
2011 – 2015	2,065,000	371,147
2016 – 2020	<u>695,000</u>	<u>72,625</u>
<b>Total</b>	<b><u>\$4,800,000</u></b>	<b><u>\$1,173,177</u></b>

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 8 - Long-Term Debt (Continued)**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
<b>Governmental activities:</b>					
Contract and loans payable	\$1,347,000	\$ -	\$ 148,000	\$1,199,000	\$ 148,000
Compensated absences	<u>207,515</u>	<u>12,597</u>	<u>-</u>	<u>220,112</u>	<u>32,000</u>
	<u>\$1,554,515</u>	<u>\$ 12,597</u>	<u>\$ 148,000</u>	<u>\$1,419,112</u>	<u>\$ 180,000</u>
<b>Business-type activities:</b>					
Revenue bonds	\$5,175,000	\$ -	\$ 375,000	\$4,800,000	\$ 385,000
Compensated absences	<u>150,091</u>	<u>-</u>	<u>4,074</u>	<u>146,017</u>	<u>79,000</u>
	<u>\$5,679,942</u>	<u>\$ -</u>	<u>\$ 360,000</u>	<u>\$4,946,017</u>	<u>\$ 464,000</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

**Note 9 - Segment Information – Enterprise Funds**

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are segments, and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

**Note 10 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

**Note 11 - Pension Plan**

**Plan Description** - The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

**City of Hillsdale, Michigan**  
Notes to Financial Statements

**Note 11 - Pension Plan (Continued)**

**Funding Policy** - The City is required to contribute at an actuarially determined rate designed to accumulate sufficient assets to pay benefits when due. Employees are currently required to contribute 3-5% of covered wages to the Plan. The contribution requirements of the City are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City.

**Annual Pension Cost** - For the year ended June 30, 2005, the City's pension cost of \$100,333 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability at December 31, 2004, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/20/03	\$ 29,000	100%	\$ -
6/30/04	38,000	100%	-
6/30/05	100,000	100%	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) – Entry Age</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/02	\$13,429,609	\$11,575,379	\$1,854,230	116%	\$3,571,650	-%
12/31/03	13,943,123	12,682,283	1,260,840	116	3,684,530	-
12/31/04	14,500,440	13,695,079	805,361	106	3,674,352	-

**Note 12 - Commitments and Contingencies**

The City participates in a number of federally-assisted grant programs. These programs are subject to program compliance audits. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

## Required Supplemental Information



**City of Hillsdale, Michigan**  
Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Budget to Actual  
General Fund  
Year Ended June 30, 2005

	Budgeted Amounts		
	Original	Final	Actual
Revenues:			
City taxes:			
Property	\$ 2,103,000	\$ 2,103,000	\$ 2,106,031
Administrative fees	68,000	68,000	72,622
Interest and penalties	21,700	21,700	26,633
Industrial facilities tax	<u>115,000</u>	<u>115,000</u>	<u>201,200</u>
Total city taxes	2,307,700	2,307,700	2,406,486
State revenue	938,000	938,000	946,464
Federal revenue	-	20,500	23,122
Other revenue	<u>960,550</u>	<u>963,850</u>	<u>1,216,759</u>
Total revenues	<u>4,206,250</u>	<u>4,230,050</u>	<u>4,592,831</u>
Expenditures:			
General government:			
Council	33,075	33,075	24,277
Clerk	125,675	125,675	125,711
City manager	188,960	188,960	182,536
Assistant city manager	77,010	77,010	73,233
Administrative	186,550	186,550	132,601
Treasurer	113,750	148,750	121,017
Street lights	45,000	52,000	49,830
Airport	70,845	70,845	80,434
Finance department	83,990	83,990	82,064
General operation	<u>150,675</u>	<u>200,675</u>	<u>169,546</u>
Total general government	<u>1,075,530</u>	<u>1,167,530</u>	<u>1,041,249</u>
Public safety:			
Police	1,275,405	1,275,405	1,207,279
Fire	<u>370,685</u>	<u>394,485</u>	<u>361,189</u>
Total public safety	<u>1,646,090</u>	<u>1,669,890</u>	<u>1,568,468</u>
Public works:			
Public services	391,555	391,555	355,775
Cemetery	<u>78,220</u>	<u>93,220</u>	<u>85,643</u>
Total public works	<u>469,775</u>	<u>484,775</u>	<u>441,418</u>
Health:			
Assessor	134,145	134,145	127,272
Building inspector	<u>37,990</u>	<u>37,990</u>	<u>33,139</u>
Total health	<u>172,135</u>	<u>172,135</u>	<u>160,411</u>

Continued..

**City of Hillsdale, Michigan**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual (Continued)  
General Fund  
Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>Expenditures (Concluded):</b>			
Culture and recreation - parks	\$ 117,245	\$ 117,245	\$ 106,066
Total expenditures	<u>3,480,775</u>	<u>3,611,575</u>	<u>3,317,612</u>
<b>Revenues Over (Under) Expenditures</b>	<u>725,475</u>	<u>618,475</u>	<u>1,275,219</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	22,000	22,000	22,000
Transfers out	<u>(747,475)</u>	<u>(1,394,975)</u>	<u>(1,280,903)</u>
Total other financing sources (uses)	<u>(725,475)</u>	<u>(1,372,975)</u>	<u>(1,258,903)</u>
<b>Net Changes in Fund Balances</b>	-	(754,500)	16,316
<b>Fund Balances - Beginning of Year</b>	<u>628,960</u>	<u>628,960</u>	<u>628,960</u>
<b>Fund Balances - End of Year</b>	<u>\$ 628,960</u>	<u>\$ (125,540)</u>	<u>\$ 645,276</u>

## Other Supplemental Information

**City of Hillsdale, Michigan**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
<b><u>Assets</u></b>					
Cash and cash equivalents	\$ 371,296	\$ 5,726	\$ 135,017	\$ 63,814	\$ 575,853
Investments, at cost	-	-	-	505,415	505,415
Accounts receivable	54,538	-	2,169	-	56,707
Due from other governmental agencies	122,859	-	-	-	122,859
Prepaid expenditures	1,725	-	-	-	1,725
Total assets	<u>\$ 550,418</u>	<u>\$ 5,726</u>	<u>\$ 137,186</u>	<u>\$ 569,229</u>	<u>\$ 1,262,559</u>
<b><u>Liabilities and Fund Balances</u></b>					
Liabilities:					
Accounts payable	\$ 44,699	\$ -	\$ -	\$ -	\$ 44,699
Accrued payroll and related liabilities	7,248	-	-	-	7,248
Due to other funds	5,498	-	-	-	5,498
Total liabilities	<u>57,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,445</u>
Fund Balances:					
Reserved for prepaid items	1,725	-	-	-	1,725
Reserved for perpetual care and endowment	-	-	-	569,229	569,229
Unreserved:					
Unreserved; undesignated	491,248	5,726	137,186	-	634,160
Total fund balances	<u>492,973</u>	<u>5,726</u>	<u>137,186</u>	<u>569,229</u>	<u>1,205,114</u>
Total liabilities and fund balances	<u>\$ 550,418</u>	<u>\$ 5,726</u>	<u>\$ 137,186</u>	<u>\$ 569,229</u>	<u>\$ 1,262,559</u>

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2005

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Funds</u>	<u>Total</u>
<b>Revenues:</b>					
Taxes	\$ 148,409	\$ -	\$ -	\$ -	\$ 148,409
Intergovernmental - federal and state	677,988	-	-	-	677,988
Charges for services	83,257	-	-	14,025	97,282
Fines and violations	51,853	-	-	-	51,853
Miscellaneous	49,117	-	99,971	30,475	179,563
Total revenues	<u>1,010,624</u>	<u>-</u>	<u>99,971</u>	<u>44,500</u>	<u>1,155,095</u>
<b>Expenditures:</b>					
Public safety	11,754	-	-	-	11,754
Highways and streets	697,104	-	-	-	697,104
Culture and recreation	343,086	-	-	-	343,086
Debt service:					
Principal payments	-	148,000	-	-	148,000
Interest and fiscal charges	-	24,197	-	-	24,197
Capital outlay	-	-	79,573	-	79,573
Total expenditures	<u>1,051,944</u>	<u>172,197</u>	<u>79,573</u>	<u>-</u>	<u>1,303,714</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(41,320)</u>	<u>(172,197)</u>	<u>20,398</u>	<u>44,500</u>	<u>(148,619)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	124,130	172,200	144,880	-	441,210
Operating transfers out	(73,700)	-	(94,200)	(20,000)	(187,900)
Total other financing sources (uses)	<u>50,430</u>	<u>172,200</u>	<u>50,680</u>	<u>(20,000)</u>	<u>253,310</u>
<b>Changes in Fund Balances</b>	9,110	3	71,078	24,500	104,691
<b>Fund Balances - Beginning of Year</b>	<u>483,863</u>	<u>5,723</u>	<u>66,108</u>	<u>544,729</u>	<u>1,100,423</u>
<b>Fund Balances - End of Year</b>	<u>\$ 492,973</u>	<u>\$ 5,726</u>	<u>\$ 137,186</u>	<u>\$ 569,229</u>	<u>\$ 1,205,114</u>

**City of Hillsdale, Michigan**

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Library	Recreation	Commission	Drug	Police				Local	Fire	Total
					Forfeitures	Public	Relations	Major			
								Street	Street	Equipment	
\$	156,748 \$	802 \$	104 \$	6,572 \$	196,094 \$	7,318 \$	3,658 \$	371,296			
	51,328	3,210	-	-	-	-	-	54,538			
	-	-	-	-	85,240	37,619	-	122,859			
	210	1,515	-	-	-	-	-	1,725			
\$	208,286 \$	5,527 \$	104 \$	6,572 \$	281,334 \$	44,937 \$	3,658 \$	550,418			

**Assets**

Cash and cash equivalents  
Accounts receivable  
Due from other governmental agencies  
Prepaid expenditures  
Total assets

**Liabilities and Fund Balances**

**Liabilities:**

Accounts payable	\$	10,195 \$	3,419 \$	- \$	50 \$	23,091 \$	7,944 \$	- \$	44,699
Accrued salaries and related liabilities		2,154	1,384	-	-	1,462	2,248	-	7,248
Due to other funds		5,498	-	-	-	-	-	-	5,498
Total liabilities		17,847	4,803	-	50	24,553	10,192	-	57,445

**Fund Balances:**

Reserved for prepaid items		210	1,515	-	-	-	-	-	1,725
Unreserved; undesignated		190,229	(791)	104	6,522	256,781	34,745	3,658	491,248
Total fund balances		190,439	724	104	6,522	256,781	34,745	3,658	492,973
Total liabilities and fund balances	\$	208,286 \$	5,527 \$	104 \$	6,572 \$	281,334 \$	44,937 \$	3,658 \$	550,418

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Nonmajor Special Revenue Funds  
Year Ended June 30, 2005

	Police									
	Library	Recreation	Commission	Drug	Forfeitures	Public	Relations	Major	Local	Fire
								Street	Street	Equipment
										Total
<b>Revenues:</b>										
Property taxes	\$ 148,409	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 148,409
Intergovernmental - federal and state	12,537	-	-	-	-	-	-	506,744	158,707	- 677,988
Charges for services	17,999	65,258	-	-	-	-	-	-	-	- 83,257
Fines and violations	51,853	-	-	-	-	-	-	-	-	- 51,853
Miscellaneous	27,070	1,857	-	-	-	12,051	-	6,513	-	1,626 49,117
Total revenues	257,868	67,115	-	-	-	12,051	-	513,257	158,707	1,626 1,010,624
<b>Expenditures:</b>										
Public safety	-	-	-	-	-	11,754	-	-	-	- 11,754
Highways and streets	-	-	-	-	-	-	-	421,792	275,312	- 697,104
Culture and recreation	245,128	97,958	-	-	-	-	-	-	-	- 343,086
Total expenditures	245,128	97,958	-	-	-	11,754	-	421,792	275,312	- 1,051,944
<b>Revenues Over (Under) Expenditures</b>	12,740	(30,843)	-	-	-	297	-	91,465	(116,605)	1,626 (41,320)
<b>Other Financing Sources (Uses):</b>										
Transfers in	-	31,015	-	-	-	-	-	-	93,115	- 124,130
Transfers out	(36,200)	-	-	-	-	-	-	(37,500)	-	- (73,700)
Total other financing sources (uses)	(36,200)	31,015	-	-	-	-	-	(37,500)	93,115	- 50,430
<b>Changes in Fund Balances</b>	(23,460)	172	-	-	-	297	-	53,965	(23,490)	1,626 9,110
<b>Fund Balances - Beginning of Year</b>	213,899	552	104	104	104	6,225	-	202,816	58,235	2,032 483,863
<b>Fund Balances - End of Year</b>	\$ 190,439	\$ 724	\$ 104	\$ 104	\$ 104	\$ 6,522	\$ 256,781	\$ 34,745	\$ 3,658	\$ 492,973

**City of Hillsdale, Michigan**  
Combining Balance Sheet  
Nonmajor Debt Service Funds  
June 30, 2005

		<u>Bond and Interest</u>
	<u><b>Assets</b></u>	
Cash and cash equivalents		\$ <u>5,726</u>
	<u><b>Fund Balance</b></u>	
Unreserved; undesignated		<u>5,726</u>
Total fund balances		\$ <u>5,726</u>



**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Nonmajor Debt Service Funds  
Year Ended June 30, 2005

	<u>Bond and Interest</u>
<b>Revenues:</b>	
Interest income	\$ -
<b>Expenditures:</b>	
Principal retirement	148,000
Interest and fiscal charges	<u>24,197</u>
Total expenditures	<u>172,197</u>
<b>Revenues Under Expenditures</b>	(172,197)
<b>Other Financing Sources:</b>	
Transfers in	<u>172,200</u>
<b>Changes in Fund Balance</b>	3
<b>Fund Balance - Beginning of Year</b>	<u>5,723</u>
<b>Fund Balance - End of Year</b>	<u>\$ 5,726</u>

**City of Hillsdale, Michigan**  
Combining Balance Sheet  
Nonmajor Capital Project Funds  
June 30, 2005

	<u>Library</u>	<u>Airport</u>	<u>Three</u>	<u>Field of</u>	<u>Stock</u>	
	<u>Improvement</u>	<u>Improvement</u>	<u>Meadows</u>	<u>Dreams</u>	<u>Park</u>	<u>Total</u>
<b><u>Assets</u></b>						
Cash and cash equivalents	\$ 101	\$ 117,454	\$ 823	\$ 1,003	\$ 15,636	\$ 135,017
Accounts receivable	-	2,169	-	-	-	2,169
Due from other agencies	-	-	-	-	-	-
Total assets	<u>\$ 101</u>	<u>\$ 119,623</u>	<u>\$ 823</u>	<u>\$ 1,003</u>	<u>\$ 15,636</u>	<u>\$ 137,186</u>
 <b><u>Liabilities and Fund Balances</u></b>						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances:						
Unreserved; undesignated	<u>101</u>	<u>119,623</u>	<u>823</u>	<u>1,003</u>	<u>15,636</u>	<u>137,186</u>
Total fund balances	<u>101</u>	<u>119,623</u>	<u>823</u>	<u>1,003</u>	<u>15,636</u>	<u>137,186</u>
Total liabilities and fund balances	<u>\$ 101</u>	<u>\$ 119,623</u>	<u>\$ 823</u>	<u>\$ 1,003</u>	<u>\$ 15,636</u>	<u>\$ 137,186</u>

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Nonmajor Capital Project Funds  
Year Ended June 30, 2005

	<u>Library Improvement</u>	<u>Airport Improvement</u>	<u>Three Meadows</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Total</u>
<b>Revenues:</b>						
Miscellaneous	\$ 56,560	\$ 18,180	\$ -	\$ 1,058	\$ 24,173	\$ 99,971
<b>Expenditures:</b>						
Capital outlay	-	5,830	60,681	55	13,007	79,573
Total expenditures	-	5,830	60,681	55	13,007	79,573
<b>Revenues Over (Under) Expenditures</b>	56,560	12,350	(60,681)	1,003	11,166	20,398
<b>Other Financing Sources (Uses):</b>						
Transfers in	34,200	50,000	60,680	-	-	144,880
Transfers out	(94,200)	-	-	-	-	(94,200)
Total other financing sources (uses)	(60,000)	50,000	60,680	-	-	50,680
<b>Changes in Fund Balances</b>	(3,440)	62,350	(1)	1,003	11,166	71,078
<b>Fund Balances - Beginning of Year</b>	3,541	57,273	824	-	4,470	66,108
<b>Fund Balances - End of Year</b>	\$ 101	\$ 119,623	\$ 823	\$ 1,003	\$ 15,636	\$ 137,186

**City of Hillsdale, Michigan**  
Combining Balance Sheet  
Nonmajor Permanent Funds  
June 30, 2005

	<u>R.L. Owen</u>	<u>Cemetery</u>	
	<u>Memorial</u>	<u>Perpetual</u>	<u>Total</u>
		<u>Care</u>	
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 22,825	\$ 40,989	\$ 63,814
Investments, at cost	-	505,415	505,415
Inventory	-	-	-
Prepaid expenditures	-	-	-
Total assets	<u>\$ 22,825</u>	<u>\$ 546,404</u>	<u>\$ 569,229</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Due to other agencies	\$ -	\$ -	\$ -
Fund Balances:			
Reserved for perpetual care and endowment principal	<u>22,825</u>	<u>546,404</u>	<u>569,229</u>
Total fund balances	<u>22,825</u>	<u>546,404</u>	<u>569,229</u>
Total liabilities and fund balances	<u>\$ 22,825</u>	<u>\$ 546,404</u>	<u>\$ 569,229</u>

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Nonmajor Permanent Funds  
Year Ended June 30, 2005

	<b>R.L. Owen Memorial</b>	<b>Cemetery Perpetual Care</b>	<b>Total</b>
<b>Revenues:</b>			
Fees	\$ -	\$ 14,025	\$ 14,025
Investment income	<u>6,292</u>	<u>24,183</u>	<u>30,475</u>
Total revenues	<u>6,292</u>	<u>38,208</u>	<u>44,500</u>
<b>Other Financing Uses:</b>			
Operating transfers out	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
<b>Changes in Fund Balances</b>	6,292	18,208	24,500
<b>Fund Balances - Beginning of Year</b>	<u>16,533</u>	<u>528,196</u>	<u>544,729</u>
<b>Fund Balances - End of Year</b>	<u>\$ 22,825</u>	<u>\$ 546,404</u>	<u>\$ 569,229</u>

**City of Hillsdale, Michigan**  
Dial-A-Ride Enterprise Fund  
Comparative Statements of Revenues, Expenses,  
and Changes in Net Assets  
Years Ended June 30, 2005 and 2004

	<b>07/01/2004 - 9/30/2004</b>	<b>10/01/2004 - 6/30/2005</b>	<b>Total</b>	<b>2004</b>
<b>Operating Revenues:</b>				
Demand response (farebox)	\$ 10,600	\$ 39,377	\$ 49,977	\$ 45,820
<b>Operating Expenses</b>	<u>86,152</u>	<u>361,585</u>	<u>447,737</u>	<u>421,872</u>
<b>Operating Losses</b>	(75,552)	(322,208)	(397,760)	(376,052)
<b>Nonoperating Revenues</b>	<u>44,439</u>	<u>280,086</u>	<u>324,525</u>	<u>439,369</u>
<b>Net Income (Loss)</b>	<u>\$ (31,113)</u>	<u>\$ (42,122)</u>	(73,235)	63,317
<b>Net Assets - Beginning of Year</b>			<u>200,721</u>	<u>137,404</u>
<b>Net Assets - End of Year</b>			<u>\$ 127,486</u>	<u>\$ 200,721</u>

**City of Hillsdale, Michigan**  
Dial-A-Ride Enterprise Fund  
Comparative Schedules of Operating Expenses  
Years Ended June 30, 2005 and 2004

				(1) 2005 Total System	(1) 2004 Total System
	Operations	Maintenance	General		
<b>Labor:</b>					
Operator salaries and wages	\$ 215,983	\$ -	\$ -	\$ 215,983	\$ 186,115
<b>Fringe Benefits</b>	88,533	-	-	88,533	68,976
<b>Services:</b>					
Contractual	5,329	-	3,903	9,232	43,898
Telephone	-	-	1,522	1,522	1,476
<b>Vehicle Maintenance</b>	-	14,853	-	14,853	14,809
<b>Materials and Supplies</b>					
<b>Consumed:</b>					
Fuel and lubricants	21,286	-	-	21,286	14,221
Other materials and supplies	747	-	-	747	1,304
<b>Casualty and Liability Costs:</b>					
Premiums for public liability and property damage insurance	18,248	-	-	18,248	18,127
<b>Miscellaneous Expenses:</b>					
Other	4,157	-	-	4,157	1,215
<b>Rentals</b>	-	-	15,600	15,600	14,600
<b>Depreciation</b>	57,576	-	-	57,576	57,131
Total expenses	<u>\$ 411,859</u>	<u>\$ 14,853</u>	<u>\$ 21,025</u>	<u>\$ 447,737</u>	<u>\$ 421,872</u>

(1) All General Operations

**City of Hillsdale, Michigan**  
Dial-A-Ride Enterprise Fund  
Comparative Schedules of Nonoperating Revenues  
For the Years Ended June 30, 2005 and 2004

	07/01/2004 - 9/30/2004	10/01/2004 - 6/30/2005	Total	2004
<b>Nonoperating Revenues:</b>				
Local - transfer from General Fund	\$ -	\$ 113,093	\$ 113,093	\$ 120,785
Other	116	5,790	5,906	3,329
Subtotal Local	116	118,883	118,999	124,114
<b>State of Michigan Grants:</b>				
Formula assistance (Act 51) - FY 99 Closeout	(6,237)	(2,079)	(8,316)	-
Formula assistance (Act 51) - FY 01 Closeout	-	-	-	(4,158)
Formula assistance (Act 51) - FY 02	-	-	-	(8,963)
Formula assistance (Act 51) - FY 03	-	(1,331)	(1,331)	34,858
Formula assistance (Act 51) - FY 04	42,892	-	42,892	128,673
Formula assistance (Act 51) - FY 05	-	127,134	127,134	-
Subtotal State of Michigan grants	36,655	123,724	160,379	150,410
<b>Federal Grants:</b>				
U.S.D.O.T. Grant - Section 18/5311:				
Contract 2001-0036	-	-	-	3,183
Contract 2002-0044Z6	7,413	7,118	14,531	26,510
Contract 2002-0044Z1	-	2,544	2,544	-
Contract 2002-0044Z8	-	23,915	23,915	9,155
RTAP Training	255	-	255	353
Subtotal U.S.D.O.T. Grant - Section 18/5311	7,668	33,577	41,245	39,201
U.S.D.O.T. Grant - Section 18/5309:				
Contract 2002-004 (Bus)	-	-	-	81,697
Contract 2002-0044Z2	-	3,902	3,902	-
Contract 2002-004 (Facility)	-	-	-	43,947
Subtotal U.S.D.O.T. Grant - Section 18/5309	-	3,902	3,902	125,644
Subtotal Federal grants	7,668	37,479	45,147	164,845
<b>Total nonoperating revenues - local, state and federal</b>	<b>\$ 44,439</b>	<b>\$ 280,086</b>	<b>\$ 324,525</b>	<b>\$ 439,369</b>



**City of Hillsdale, Michigan**  
Dial-A-Ride Enterprise Fund  
Net Eligible Costs Computations of General Operations  
For the Year Ended June 30, 2005

	<b>Federal Section 5311</b>		<b>State Operating Assistance</b>	
	<b>2002-0044Z6</b>	<b>2002-0044Z8</b>		
	<b>7/1/04 -</b>	<b>10/1/04 -</b>	<b>7/1/04 -</b>	<b>10/1/04 -</b>
	<b>9/30/04</b>	<b>6/30/05</b>	<b>9/30/04</b>	<b>6/30/05</b>
<b>Expenses:</b>				
Labor	\$ 38,464	\$ 177,519	\$ 38,464	\$ 177,519
Fringe benefits	21,151	67,382	21,151	67,382
Services	209	9,023	209	9,023
Utilities	210	1,312	210	1,312
Vehicle maintenance	5,141	9,712	5,141	9,712
Materials and supplies	2,444	19,589	2,444	19,589
Casualty and liability costs	-	18,248	-	18,248
Miscellaneous expense	239	3,918	239	3,918
Rental	3,900	11,700	3,900	11,700
Depreciation	14,394	43,182	14,394	43,182
	<u>86,152</u>	<u>361,585</u>	<u>86,152</u>	<u>361,585</u>
<b>Total expenses</b>				
	<u>86,152</u>	<u>361,585</u>	<u>86,152</u>	<u>361,585</u>
<b>Less Ineligible Expenses:</b>				
RTAP training	116	139	116	139
5309 expense reimbursement	-	3,902	-	3,902
Depreciation	14,394	43,182	14,394	43,182
	<u>14,510</u>	<u>47,223</u>	<u>14,510</u>	<u>47,223</u>
<b>Total ineligible expenses</b>				
	<u>14,510</u>	<u>47,223</u>	<u>14,510</u>	<u>47,223</u>
<b>Net eligible expenses</b>				
	<u>71,642</u>	<u>314,362</u>	<u>71,642</u>	<u>314,362</u>
<b>Maximum Section 5311 Reimbursement</b>				
Progress payments (10.95% and 12.18%)	<u>\$ 14,531</u>	<u>\$ 23,915</u>		
	(1)	(2)		
<b>Eligible for State Operating:</b>				
For 7/01/04 to 9/30/04			<u>\$ 42,892</u>	
			(3)	
For 10/01/04 to 6/30/05 [2]				<u>\$ 127,134</u>
				(4)

(1) Received \$41,041 in progress payments to 6-30-05. Subject to adjustment on closeout.

(2) Received \$23,915 in progress payments to 6-30-05. Subject to adjustment on closeout.

(3) Represents three monthly progress payments. Total payments for 10-1-03 to 9-30-04 are \$171,565.

(4) There have been \$127,134 in payments through 6/30/05.

**City of Hillsdale, Michigan**  
Dial-A-Ride Enterprise Fund  
Comparative Schedules of Mileage Data (Unaudited)  
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Demand - Response:</b>		
1st quarter	15,708	15,260
2nd quarter	18,915	20,077
3rd quarter	20,205	20,891
4th quarter	<u>18,110</u>	<u>18,717</u>
 Total operation	 <u>72,938</u>	 <u>74,945</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

No miles are logged for charter operations, nor school bus mileage.

**City of Hillsdale, Michigan**  
Combining Statement of Net Assets  
Internal Service Funds  
June 30, 2005

	Department of				
	Public Service	Public	Revolving	Unemployment	
	Leave &	Service	Mobile	Insurance	
	Benefits	Inventory	Equipment		Total
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 24,724	\$ 25,019	\$ 136,068	\$ 56,107	\$ 241,918
Accounts receivable	-	-	44	-	44
Inventory	-	124,432	-	-	124,432
Prepaid expenses	16,887	-	14,850	-	31,737
Total current assets	41,611	149,451	150,962	56,107	398,131
Capital assets:					
Equipment	-	-	1,488,367	-	1,488,367
Less: accumulated depreciation	-	-	(1,089,362)	-	(1,089,362)
Total capital assets, net	-	-	399,005	-	399,005
Total assets	41,611	149,451	549,967	56,107	797,136
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	132	6,043	10,698	-	16,873
Accrued payroll and related liabilities	-	-	659	-	659
Total current liabilities	132	6,043	11,357	-	17,532
Other liabilities:					
Compensated absences	33,910	-	8,970	-	42,880
Total liabilities	34,042	6,043	20,327	-	60,412
<b>Net Assets:</b>					
Invested in capital assets, net of related debt	-	-	399,005	-	399,005
Unrestricted	7,569	143,408	130,635	56,107	337,719
Total net assets	\$ 7,569	\$ 143,408	\$ 529,640	\$ 56,107	\$ 736,724

**City of Hillsdale, Michigan**  
Combining Statement of Revenues, Expenses  
and Changes in Net Assets  
Internal Service Funds  
Year Ended June 30, 2005

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
<b>Operating Revenues:</b>					
Charges for services	\$ -	\$ 85,818	\$ 337,904	\$ -	\$ 423,722
Other revenue	<u>153,824</u>	<u>-</u>	<u>35,796</u>	<u>6,565</u>	<u>196,185</u>
Total operating revenues	<u>153,824</u>	<u>85,818</u>	<u>373,700</u>	<u>6,565</u>	<u>619,907</u>
<b>Operating Expenses:</b>					
Salaries	46,236	306	54,974	-	101,516
Fringe benefits	100,019	22	27,718	-	127,759
Supplies	-	73,220	9,498	-	82,718
Services	-	-	29,440	-	29,440
Maintenance	-	-	107,051	-	107,051
Insurance	-	-	28,151	-	28,151
Miscellaneous	-	92	11,820	3,287	15,199
Depreciation	<u>-</u>	<u>-</u>	<u>119,482</u>	<u>-</u>	<u>119,482</u>
Total operating expenses	<u>146,255</u>	<u>73,640</u>	<u>388,134</u>	<u>3,287</u>	<u>611,316</u>
<b>Operating Income (Loss)</b>	7,569	12,178	(14,434)	3,278	8,591
<b>Nonoperating Revenues:</b>					
Transfers in from other funds	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
<b>Changes in Net Assets</b>	7,569	12,178	10,566	3,278	33,591
<b>Net Assets - Beginning of Year</b>	<u>-</u>	<u>131,230</u>	<u>519,074</u>	<u>52,829</u>	<u>703,133</u>
<b>Net Assets - End of Year</b>	<u>\$ 7,569</u>	<u>\$ 143,408</u>	<u>\$ 529,640</u>	<u>\$ 56,107</u>	<u>\$ 736,724</u>

**City of Hillsdale, Michigan**  
Combining Statement of Cash Flows  
Internal Service Funds  
Year Ended June 30, 2005

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
<b>Cash Flows From Operating Activities:</b>					
Cash paid to employees and suppliers	\$ (146,282)	\$ (94,258)	\$ (276,982)	\$ (3,287)	\$ (520,809)
Receipts for interfund services provided	153,824	85,818	374,018	6,565	620,225
Net cash provided by (used in) operating activities	7,542	(8,440)	97,036	3,278	99,416
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Purchase of capital assets	-	-	(218,289)	-	(218,289)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	7,542	(8,440)	(121,253)	3,278	(118,873)
<b>Cash and Cash Equivalents - Beginning of Year</b>	17,182	33,459	257,321	52,829	360,791
<b>Cash and Cash Equivalents - End of Year</b>	\$ 24,724	\$ 25,019	\$ 136,068	\$ 56,107	\$ 241,918
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>					
Operating income (loss)	\$ 7,569	\$ 12,178	\$ (14,434)	\$ 3,278	\$ 8,591
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	119,482	-	119,482
Changes in:					
Accounts receivable	-	-	318	-	318
Inventory	-	(23,114)	-	-	(23,114)
Prepaid expenses	(4,008)	-	(819)	-	(4,827)
Accounts payable	132	2,496	(4,165)	-	(1,537)
Accrued expenses	3,849	-	(3,346)	-	503
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 7,542	\$ (8,440)	\$ 97,036	\$ 3,278	\$ 99,416

**City of Hillsdale, Michigan**  
Tax Increment Finance Authority Component Unit  
Comparative Balance Sheets  
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 116,291	\$ 30,398
Total assets	<u>\$ 116,291</u>	<u>\$ 30,398</u>
<b>Fund Balances:</b>		
Unreserved: undesignated	<u>\$ 116,291</u>	<u>\$ 30,398</u>

**City of Hillsdale, Michigan**  
Statement of Revenues, Expenditures and Changes  
in Fund Balances - Budget to Actual  
Tax Increment Finance Authority Component Unit  
Year Ended June 30, 2005  
(With Comparative Amounts for the Year Ended June 30, 2004)

	<u>2005</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>	<u>2004</u>
<b>Revenues:</b>				
Local sources:				
Property taxes	\$ 85,000	\$ 92,268	\$ 7,268	\$ 84,422
Earnings on investments	<u>500</u>	<u>1,125</u>	<u>625</u>	<u>1,458</u>
Total revenues	85,500	93,393	7,893	85,880
<b>Expenditures:</b>				
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,390</u>
<b>Revenues Over (Under) Expenditures</b>	<u>85,500</u>	<u>93,393</u>	<u>7,893</u>	<u>(214,510)</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers out	<u>(60,000)</u>	<u>(7,500)</u>	<u>52,500</u>	<u>(49,374)</u>
Total other financing sources (uses)	<u>(60,000)</u>	<u>(7,500)</u>	<u>52,500</u>	<u>(49,374)</u>
<b>Net Changes in Fund Balances</b>	25,500	85,893	60,393	(263,884)
<b>Fund Balances - Beginning of Year</b>	<u>30,398</u>	<u>30,398</u>	<u>-</u>	<u>294,282</u>
<b>Fund Balances - End of Year</b>	<u>\$ 55,898</u>	<u>\$ 116,291</u>	<u>\$ 60,393</u>	<u>\$ 30,398</u>

**City of Hillsdale, Michigan**  
Economic Development Corporation Component Unit  
Comparative Balance Sheets  
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 99,190	\$ 36,170
<b>Net Assets</b>	<u>\$ 99,190</u>	<u>\$ 36,170</u>



**City of Hillsdale, Michigan**  
Statement of Revenues,  
Expenses and Changes  
in Net Assets - Budget to Actual  
Economic Development Corporation Component Unit  
Year Ended June 30, 2005  
(With Comparative Amounts For the Year Ended June 30, 2004)

	<u>2005</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>	<u>2004</u>
<b>Nonoperating Revenues:</b>				
Earnings on investments	\$ 300	\$ 720	\$ 420	\$ 262
Transfers in	<u>62,500</u>	<u>62,500</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues	62,800	63,220	420	262
<b>Nonoperating Expenses</b>	<u>62,800</u>	<u>200</u>	<u>62,600</u>	<u>-</u>
<b>Net Income</b>	-	63,020	63,020	262
<b>Net Assets - Beginning of Year</b>	<u>36,170</u>	<u>36,170</u>	<u>-</u>	<u>35,908</u>
<b>Net Assets - End of Year</b>	<u>\$ 36,170</u>	<u>\$ 99,190</u>	<u>\$ 63,020</u>	<u>\$ 36,170</u>



August 31, 2005

Members of City Council  
City of Hillsdale  
Hillsdale, Michigan

We have audited the financial statements of the City of Hillsdale for the year ended June 30, 2005, and have issued our report thereon dated August 31, 2005.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allowance for doubtful accounts with the Enterprise Funds.

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**WILLIS & JURASEK, P.C.**

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Web site: [www.willispc.com](http://www.willispc.com)

Management's estimate of the allowance for doubtful accounts is based on historical revenues, historical loss levels, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year-end.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

**City of Hillsdale**  
Comments and Recommendations  
June 30, 2005

Budget

The final adopted general fund budget reflected a deficit for the current year. State law (Public Act 621) does not allow for deficit budget fund balances. Care should be taken to monitor budget fund balances as budgets are adopted and/or revised.

Fixed Assets

We recommend you set up a separate mechanism for monitoring fixed assets during the year. Your current software package may handle this. At a minimum the schedule you keep should set up a summary page showing beginning of the year assets, then any additions and deletions. Accumulated depreciation should be set up in a similar manner. This would allow for easy monitoring of fixed assets during the year and at year end.